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DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

Foreign Private Investment In Sub-Saharan Africa

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ER IM 71-200
October 1971

Copy No. 60

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
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INTELLIGENCE MEMORANDUM

FOREIGN PRIVATE INVESTMENT IN SUB-SAHARAN AFRICA

Introduction

1. With a population largely engaged in subsistence agriculture and internal savings woefully inadequate, Sub-Saharan Africa[1] is more dependent than any other major region on the inflow of foreign capital to attain economic growth. Foreign capital is available only in relatively small amounts, however, and world leaders tend to ascribe a more significant role to private investment than to public aid in the future progress of the developing countries in Africa. This memorandum presents an overview on sources and uses of foreign private investment in Sub-Saharan Africa as well as the trends and prospects for its receipt in the short run.

Discussion

Background

2. The less developed world is relatively unattractive to foreign investors, and much of Sub-Saharan Africa is especially so. By 1966, only one-third of the accumulated foreign private overseas investment[2] throughout the world had been made in the less developed countries, mostly in Latin America. The share of the less developed African countries was only 5% of the world total (see Figure 2).

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1. Sub-Saharan Africa includes all states on the continent and Madagascar except for the littoral states of Algeria, Libya, Morocco, Tunisia, and the United Arab Republic (see Figure 1).

2. Data on private foreign investment are among the least satisfactory of all economic statistics. The investment data used throughout this memorandum should be considered approximate rather than precise.

Note: This memorandum was prepared by the Office of Economic Research and coordinated within the Directorate of Intelligence.

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Figure 1

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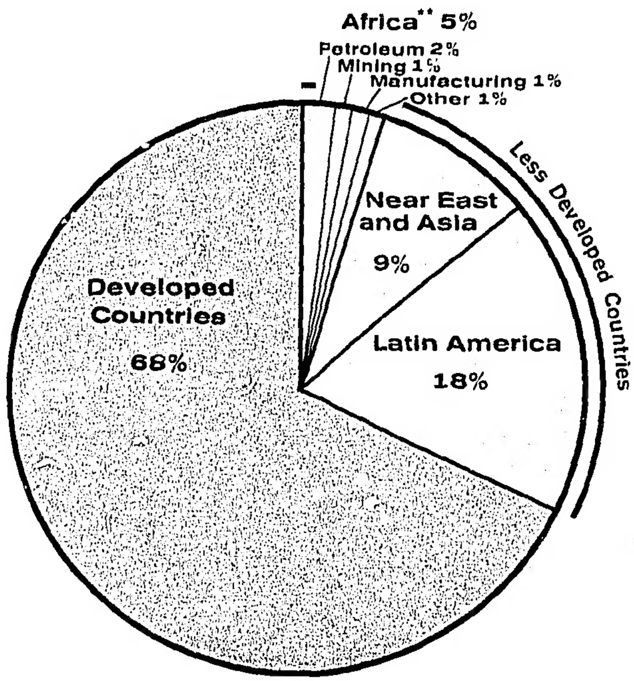
Figure 2

Development Assistance Committee Countries*: Distribution of Accumulated External Private Direct Investment, 1966

$89.6 Billion



*Australia, Austria, Belgium, Canada, Denmark, France, Italy, Japan, Norway, Netherlands, Sweden, Switzerland, United Kingdom, United States, and West Germany

**Including North Africa, but excluding South Africa. The proportion of investment in petroleum might have been somewhat less if North Africa were excluded from the less developed African countries.

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3. Foreign private investors, with few exceptions, contributed little fixed capital to Sub-Saharan Africa before the 1940s. In the late 1800s, capital began reaching Africa by way of the chartered companies – private companies or concessionaires given monopoly powers over large areas – which, in general, attempted to exploit existing resources with a minimum investment. Africa's riches were not easily exploitable, however, and nearly all companies ran into such financial difficulties that their European governments took them over or they were out of business by World War II. South Africa was an important exception, and mining investment returned profits there.

4. With most chartered companies faltering, the colonial governments took a more active role in capital formation. Governments rather than foreign individuals or companies were the principal investors in the late nineteenth century. Individual Europeans participated indirectly by purchasing colonial government bonds and other securities on capital markets. This market in colonial issues declined in World War I, during the depression, and in World War II, and by the late 1940s the flotation of African securities became limited to special cases. Europeans were reluctant to become involved with capital market issues of African governments because of a poor record of returns and because the surge toward independence was viewed as an economic upheaval that threatened not only earnings but principal as well.

5. Although government-to-government aid, rather than the capital markets, finances public infrastructure in the less developed African countries today, foreign private direct investment is growing as a means of financing private-sector development. Aid instrumentalities developed in the postwar period offered foreign exchange and technical assistance to new African countries. Many such countries, despite considerable ambivalence, have permitted those foreign private companies already present to continue operating. Other foreign companies with no prior African experience have been invited as well.

Sources and Magnitude of Foreign Private Investment

6. As of 1969, foreign private investment in Sub-Saharan Africa totaled approximately $11 billion. Most of the accumulated private sector holdings belong to European firms in the former colonies, but in recent years, more funds have been coming from investors outside the former metropoles. The United Kingdom and France are among the principal sources of foreign private capital. US companies began to take an interest in Africa after World War II, as has Japan in recent years. Investment by Belgian, Swiss, Dutch, West German, Italian, Swedish, and Canadian firms also is significant. Foreign private investment totaled about $3 billion by 1945, and net new investment (including retained earnings) added approximately $7 billion or $8 billion in the period through 1969. Investment in the 1940s and 1950s was rapid; during the 1960s the flow continued at a significant pace but was offset to a larger extent than earlier by capital flight from some parts of the continent.

Principal Foreign Private Investors

7. The British lead all foreign private investors in total value of investment, but by a smaller margin than earlier in this century. At first, private capital came mostly from the British capital markets, and by 1936 British investment in private issues was easily more than double the total

from other foreign countries. At the end of 1969, British investment might have been more than $5 billion; about $3.5 billion was attributable to South African holdings, and the balance was distributed throughout the Sub-Saharan region, especially in Nigeria, Rhodesia, Ghana, and Kenya. Excluding petroleum investment, British investment rose during the 1960s 4%-5% per year, or over $100 million annually.(3) British petroleum investment in Nigeria probably rose by well over $200 million during the 1960s.

8. Much of the value of British privately-owned assets is in manufacturing and mining. Manufacturing, mainly in South Africa, appears to account for about 40% of investments. Investment in extractive industries probably is concentrated in Nigerian petroleum and smaller ventures in South Africa, Rhodesia, Ghana, and elsewhere. Including petroleum, British interests in the extractive industries may represent more than 20% of assets. Investment in distribution and trade, especially in South Africa, also is relatively large.

9. Holdings by US private investors have increased rapidly during the past two decades (see Figure 3) but still are only about 2.8% of US overseas investment. At the end of 1969, the book value(4) of direct US investment in Sub-Saharan Africa reached about $2 billion, approximately $800 million in South Africa and roughly $1.2 billion elsewhere. A gain of $1.3 billion over the $700 million of ten years earlier was achieved – an annual rate of increase of 11%. Before World War II, direct US investment consisted of little more than the Firestone rubber plantation in Liberia, the beginnings of the copper mines in what is now Zambia, and mining investment in South Africa. After the war, mining groups began to take a more active interest in copper, iron ore, and manganese, and other companies seized opportunities in petroleum and manufacturing activities. Indirect US holdings in South Africa's private sector probably are valued at about $160 million.

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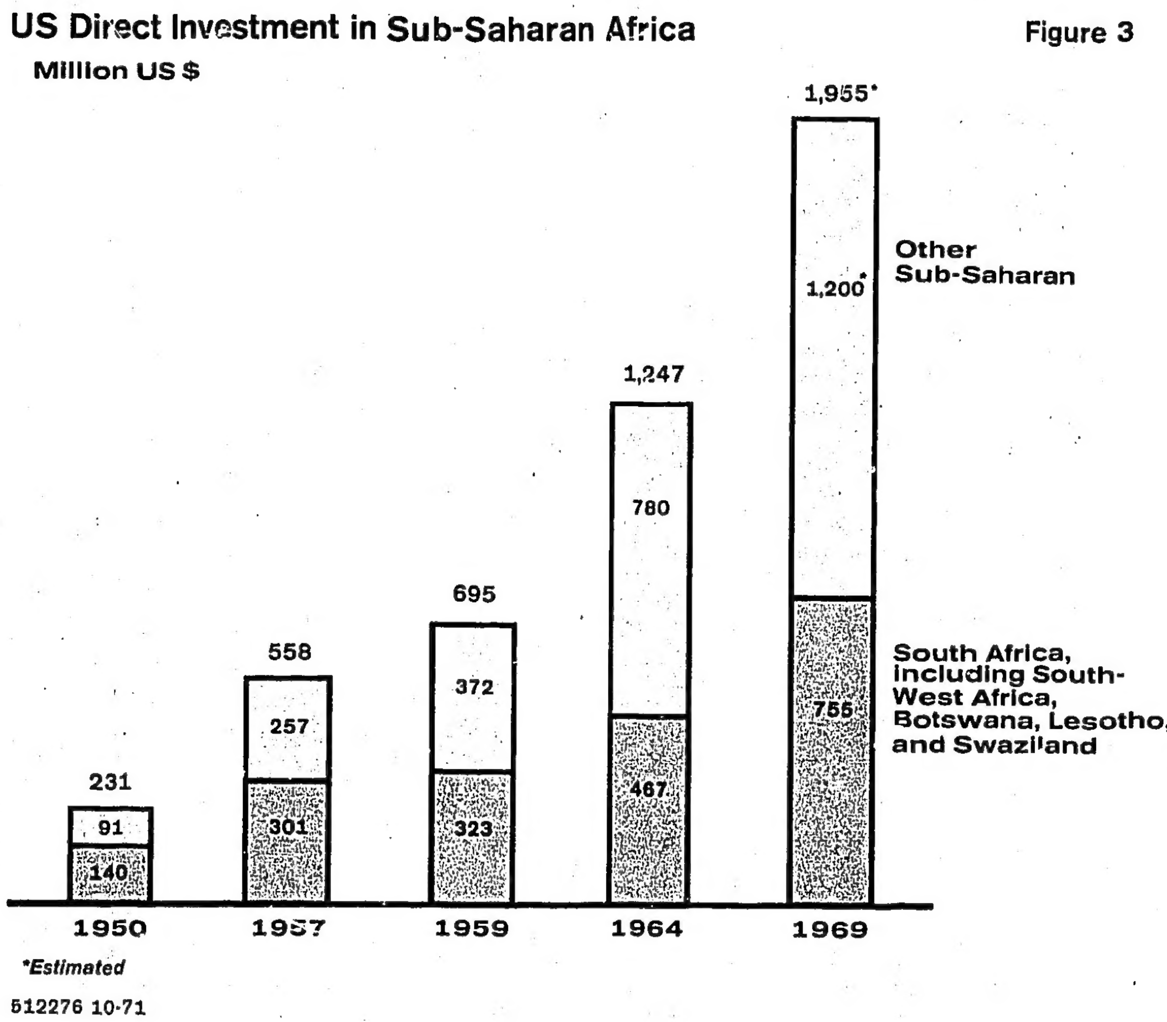
3. Growth rates on British investment are available for only a limited set of sample data, projected to all such investment. The asset value of British investment in Sub-Saharan Africa as used in this memorandum is from another source and is higher than obtained from the sample.

4. Book values are the cumulative values of holdings by foreign businesses on companies' accounts and reflect in general the cost (after depreciation) of investment and reinvestment of earnings made at various times, less liabilities. While book values are likely to understate current values of cumulative investment, especially in mining where they seldom reflect the value of discovered minerals, they are the most unambiguous data. Alternative valuations would involve an uncertain and subjective process of estimation. Hence, book values are commonly used and are more readily available.



10. American firms, like the British, have found manufacturing opportunities in South Africa, but elsewhere they have invested almost exclusively in extractive industries. Nearly one-half of US direct investment in South Africa is in manufacturing. While data are lacking for the specific area of Sub-Saharan Africa excluding South Africa, more than 80% of cumulative US direct investment for a broader region of Africa – excluding only South Africa and Libya – is in extractive industries. Manufacturing and trade account for only about 6% and 5%, respectively.

11. Accumulated French private investment in Sub-Saharan Africa is valued at perhaps $1.6 billion, making France the third most important country in respect to private holdings. Before World War II, much of French

private activity in Sub-Saharan Africa – in sharp contrast to the large public activity – required minimal fixed investment. After the war, fear of political instability in the French colonies and economic distress in France kept investment flows low. They began to increase in the 1950s, however, and annual new investment to former French Africa probably averaged $75 million or more a year during the 1965-69 period. French private sector holdings in South Africa, in direct and portfolio investment, constitute perhaps as much as $500 million of the total.

12. About 40% of French private investment in Black Africa appears to be in extractive industries, and the balance is distributed almost evenly among manufacturing, agriculture, and other industries. The principal mining interests are in petroleum, iron ore, bauxite, and manganese. Because of historical, cultural, and economic ties, French private capital plays a significant (usually a leading) role throughout francophone Africa.

13. Foreign private holdings in Sub-Saharan Africa from other investor countries, although not completely known, probably are extensive. Belgian private investment overseas was substantially reduced with the expropriation in late 1966 of about $400 million of Union Miniere assets in the Congo (K) copper industry. The remaining Belgian interests are valued at perhaps $400 million. Belgians are active on a small scale in Angola, Rwanda, and Burundi, and in South Africa their holdings plus those of Luxembourg are about $80 million (see the table). Dutch investors had an interest in Nigerian oil, perhaps to the extent of $150 million at the end of 1968, and in Unilever's plantations and trading and transport complex. Swiss investors' holdings in South Africa's private sector, about $170 million in 1965, may have been more than $300 million in 1969. The Germans had their African assets confiscated twice in this century – during the two world wars. At year-end 1969, however, the book value of German private investment outside South Africa was approximately $90 million, principally in extractive industries. German investment in South Africa reached a value of $100 million by 1966. Italian private investment is estimated to be about $160 million, mainly in petroleum and, to a lesser extent, in manufacturing and mining outside of South Africa. The largest Swedish stake is in iron ore mining in Liberia, about $65 million. Canada's private investors have interests of perhaps $40 million in aluminum in Guinea and less in copper in Uganda, as well as some manufacturing ventures. Canadian holdings in South Africa are probably no more than $160 million. Almost all Japanese private investment has occurred since 1966. While the book value is relatively small – about $60 million to $100 million at year-end 1969 – a great number of Japanese firms are active in at least ten countries in manufacturing; investment in extractive industries in Congo (K), Mozambique, and Angola presages much larger capital flows. About $600 million of private investment in South Africa came from European countries other than France, Switzerland, Belgium, Luxembourg, Germany, and from

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Foreign Investment in South Africa a/
in the Private Sector, by Source as Reported Through Year-End 1965
and Estimated Through Year-End 1969

Billion US $

	Direct b/		Indirect		Totals	
	1965	1969	1965	1969	1965	1969
Total	*2.93*	*4.54*	*1.06*	*1.59*	*3.99*	*6.13*
Sterling area	2.05	3.05	0.70	0.79	2.75	3.84
United Kingdom	1.91	2.84	0.57	0.64	2.48	3.48
Other	0.14	0.21	0.13	0.15	0.27	0.36
Dollar area	0.51	0.82	0.09	0.18	0.60	1.00
United States	0.42	0.68 c/	0.08	0.16	0.50	0.84
Other (including Canada)	0.09	0.14	0.01	0.02	0.10	0.16
Europe	0.36	0.63	0.26	0.59	0.62	1.22
France	0.12	0.21	0.12	0.27	0.24	0.48
Switzerland	0.09	0.16	0.08	0.18	0.17	0.34
Belgium and Luxembourg	0.02	0.03	0.02	0.05	0.04	0.08
Germany and other	0.13	0.23	0.04	0.09	0.17	0.32
Other	0.01	0.03	0.01	0.03	0.02	0.06

a. Including South-West Africa, Botswana, Lesotho, and Swaziland. Because of rounding, components may not add to totals shown.
b. Data for 1969 are available only by broad areas, and country details are estimated from 1965 information. Direct investment refers to foreign investments in which control is executed from abroad.

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the Sterling Bloc countries other than the United Kingdom. Firms based in Spain as well as some from non-European countries, including Australia, are known to have holdings in Africa south of the Sahara.

South Africa Versus the Rest of Sub-Saharan Africa

14. Judging from the tenuous evidence, foreign private holdings in Sub-Saharan Africa excluding South Africa were valued at about $5 billion through the late 1960s. In 1967, more than half was in petroleum and in mining (about 26% and 25%, respectively). Manufacturing accounts for approximately 22% and agriculture about 10%. Trade, transport, financial services, and public utilities comprise most of the balance. The proportion of assets in petroleum and mining can be expected to increase. US firms account for about $1.2 billion – one and one-half times the value of US private direct holdings in South Africa. UK companies hold an amount of non-petroleum assets almost equivalent to total US interests and at least another $400 million of petroleum installations, of which more than $300 million is in Nigeria. French holdings approximate $1.1 billion, appreciably more than their holdings of about $500 million in South Africa.

15. Most foreign private investment in Sub-Saharan Africa has taken place in South Africa and the smaller states of the Southern African Customs Union.(5) In the nineteenth century, in contrast to the unprofitable ventures in the rest of the continent, South African investment was returning a profit – albeit not a particularly high one. By 1969, foreign direct and portfolio investment in the private sector was valued at about $6 billion, of which $ 4.5 billion represented direct investment. The United Kingdom has been the principal investor country, and its holdings account for an estimated 55% of the total (see the table).

16. South Africa is a major outlet for British investors. Holdings there are as large as, or larger than, those the British have in the United States. In 1968, about 10% of the value of British private direct investment overseas was in South Africa (excluding petroleum investment).(6) US direct holdings in South Africa are about 1% of its overseas investments.

Conclusions

investors arises frequently from the relatively large size of foreign holdings. Such holdings often give the foreigners economic dominance over the monetized sectors of an economy and disporportionate bargaining weight in establishing the local economy's share of economic benefits – in the form of royalties, taxes, wages, and training programs. Accommodation by African governments of foreign capital, on the other hand, is in recognition of the spur it can provide to development, through the provision of capital and the use of otherwise unobtainable technology and managerial experience in more fully utilizing local resources.

18. In the foreseeable future, the trends toward rising amounts of new investment and more diversity among investors in Sub-Saharan Africa probably will continue, but sharp increases are not likely. Despite nationalizations, investment serves the foreigners seeking profits, sources of materials, and markets, and it assists governments of capital-poor countries in developing industries they could not finance independently. A stimulus to foreign investment could well come in the next few years from a broadly-backed company called Societe Internationale Financiere pour les Investissements et Developpement en Afrique (SIFIDA), newly organized to encourage private capital flows to Africa by its investigation of development opportunities and its financial assistance. It has the backing of leading Western banks and the African Development Bank. South Africa, the most important Sub-Saharan country to many UK and US business interests, will continue to attract direct and indirect investors from these and other developed countries despite opposition from independent Black African countries.

19. The exploitation of mineral resources probably will continue as the major investment undertaking for private foreigners in Sub-Saharan Africa during the next decade. Large inflows of foreign investment in manufacturing and other industries are unlikely. Foreign direct investment in manufacturing in many Sub-Saharan countries presently is hindered by narrow domestic markets (resulting from low incomes and small populations), a lack of natural and manpower resources, or investment climate not conducive to risk-taking. The extent of foreign holdings and the preponderance of recent investment flows in the extractive industries suggest that, other than in South Africa, investors have been unable to identify many promising opportunities outside of minerals.